

SECTION OPERATIONS REPORT

**PHILIP
MORRIS**

**SEPTEMBER
1987**

2043945180

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REGION 1

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MARKETING CONDITIONS

Cambridge

During September, distribution continued to increase on the Cambridge brand, which is up to 64.1% from a low of 63.1%. Cambridge full flavor distribution is still difficult to determine, however, field reports indicated 75-80%.

During the second quarter '87, Cambridge achieved a 1.0% S.O.M. in the Manchester, N.H. sub-market, and reached the top 20 brands at #20. Reports of Cambridge sales continue to be positive in the N.H. Market.

Remaining key account holdouts:

Christy's (87 stores)	Declined to purchase due to low Cambridge Lights sales
Tedeschi Food Shops (56 stores)	Next appointment week of 10/5/87

Virginia Slims Ultra Lights

The V.S. U. L. introduction is proceeding well with good retail acceptance. Acceptance among Section chains is 81.5% covering 88.9% of chain stores.

Remaining key account holdouts:

Christy's (87 stores)	Next appointment 10/1/87
Purity Supreme (43 stores)	Awaiting SGC approval

B & H Lights Box

The B&H Lights Box introduction is proceeding much slower than anticipated. To date, we have acceptances from 35.4% of Section 11's chains covering 50% of chain stores. There are several appointments scheduled during the next 10 days.

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MARKETING CONDITIONS (Continued)

B & H Lights Box (Continued)

Major accounts not accepting to date are:

Christy's	(87 stores)	Next appt. 10/1
Star Market	(45 stores)	Next appt. 10/23
Zayre	(313 stores)	Next appt. 9/24
LaVerdierres	(60 stores)	Refused
Purity Supreme	(43 stores)	Awaiting SCG approval
Shaws	(47 stores)	Next appt. 10/14

We anticipate positive responses from most of these accounts in the near future.

Philip Morris Sales

Through 8/31/87 unit sales of P.M. products are up 1.0% year to date.

Year to date brand performance is as follows:

Marlboro	+3.5	Players	-26.1
Parliament	-4.8	V.S.	-.9
B&H	-8.0	Cambridge	+40.5
Merit	-1.3		

P.M.'s Market Share in the Section is up to 42.45% (current 12 mo. moving avg.), with a share during July of 46.88%.

Industry shipments are down -3.48% through July '87 as compared to the same period in 1986, while P.M. shipments are up +.97%.

One other interesting point--on the Boston Mkt. S.O.M. report for the second quarter of '87, Marlboro Lights Box is the #2 best selling brand, above Winston S.P.!!

Industry Sales

Generic price products have a 3.72% S.O.M. per to date in Section 11 which is up from 3.15% at the same time last year. Current 3-month average is up to 3.81% which indicates continued growth of this category.

Box packings continue to show tremendous growth in Section 11 with a 12-month average share of 35.5% up from 32.6% one year ago.

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MARKETING CONDITIONS (Continued)

Tax & Regulatory Developments

No activity this period.

COMPETITIVE ACTIVITY

American Tobacco Company

A local (Regional) meeting has been scheduled on 9/25 in Boston for the retail launch of "Malibu". Sales reps. have been pre-booking the brand. Offer includes \$3.00 off the normal retail price. Cartons are marked \$3.00 off from factory.

Pall Mall filters continue to be shipped to wholesalers with \$2.00 off carton coupons.

Lucky Filter and Lucky Lights are being discounted \$.20 off per pack. In addition, a buy two packs get a third pack free are being placed in floor displays holding 40 units of the same brand.

Brown & Williamson

Viceroy, Belair and Raleigh continue to be sold to direct accounts with a \$2.00 off/ctn. discount. The \$2.00 off message is pre-printed on carton from factory.

"Rumors" were heard in Maine that B & W Sales Reps. will stop carrying stock in the near future.

Generics continue to be couponed @ \$1.00 off at retail.

Liggett & Myers

"Class A's" are being placed in 30 carton floor bins.

Distribution and sales of Quality Label generics was hurt badly in Maine when RJR's private label agreement with K-Mart went into effect (as reported by Pine State Tobacco, the primary generic distributor in Maine.)

Lorillard

Sales Reps. are working a "load in" on Newport. They are offering \$.20 off per carton to retail accounts.

(Continued)

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COMPETITIVE ACTIVITY (Continued)

Lorillard (Continued)

True is being offered in a two pack with lighter deal (30 unit display was seen). Old Gold is being wrapped in 2F1 deals at retail (both packs live). In addition, Old Gold is being offered in a 40 unit floor display featuring a free lighter with two pack purchase.

R. J. Reynolds

The price of "Magna" was recently raised to equal the Popular Price Brand category. This change in price keeps Magna from conflicting or competing with private label brands like "Austin" made for K-Mart. It also opens the door to distribute Magna in K-Mart stores. This is not to say that Magna will not be consistently couponed down to a generic price level.

R.J.R. reps in Maine have stated that beginning Jan. '88 they will be handling Life Savers and Planters Peanuts.

Coupons for \$2.00 off per carton are being offered on Century, Winston, Salem and Camel.

A 2' graphic is being placed on carton fixtures stating that Winston and Salem is being sold with \$2.00 off carton coupons attached.

R.J.R. region office personnel has overruled a local Division Manager's decision to pay for top two shelves on our fixtures. Their D.M. had told a retailer that they would sign a contract, however, he later declined to sign the contract.

Reports continue to come in that R.J.R. is beginning to reduce the value of the coupons on Doral from \$1.00 to 50¢ per carton.

Concerning the "dual fixture" stores in southern N.H. that have been threatened by RJR to be terminated, it appears as though RJR has changed their stance on this. They are now targeting locations where RJR does not have the Primary position with their carton fixtures and trying to replace ours or have racks moved. No success to date.

We recently received information from 2 R.J.R. Sales Reps. in Maine that R.J.R. S/R's will be working Lifesavers and Planters Peanuts in conjunction with cigarettes effective 1/88. They are currently eliminating calls under 100 CPW and cancelling any contracts in the under 100 CPW category.

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TRADE CLASSES

Distributors/Wholesalers

Effective 9/28/87, James Brudnick Co. of Malden will acquire Landa Tobacco of Hyde Park, Ma. All future business will be conducted from the Malden location. During 1986 J. Brudnick represented 3.24% of Section 11's business, and Landa represented .79%.

Waterfront Services, a direct buyer of cigarettes for distribution to Navy Services closed on 9/11/87, which left us with a void in servicing Navy outlets. Consequently, an application for Direct Listing has been submitted for Klausen/Gastby who will fill this void.

Chains

Hannaford Bros. is currently building their first store in the Massachusetts Market. This is their first venture into a Metropolitan Market, and I expect they will meet some stiff competition from Purity Supreme and DeMoulas. Their plans call for 2 stores in the Mass. Market with their first store (a 70,000 sq. ft. superstore) scheduled to open in May '88, in Lowell, Ma.

Li'l Peach - a division of Purity Supreme has promoted buyer Steve Quinn to Director of Store Operation. We have had an excellent relationship with Mr. Quinn, and this should be helpful to us in our business pursuits.

Pharmacy/Heartland Drug was acquired by CVS of Woonsocket, R.I., effective 9/1/87 and will fall under the jurisdiction of Section 12.

LaVerdierres Drug is becoming somewhat bearish on the cigarette category as they have begun to remove some permanent counter displays, including our BV Display. Hopefully, we can get the BV display back in, as well as further our efforts to move LaVerdierres to self service carton merchandising.

General

Stop & Shop, Purity Supreme, and Hannaford Bros. have all had presentations from R.J.R. on their new security fixture, which features an audible beep when a carton is removed. As a result of their presentations, there seems to be an increased concern about pilferage.

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TRADE CLASSES (Continued)

General (Continued)

Consequently, if we intend to continue our inroads in carton merchandising, we should be prepared to counter R.J.R.'s efforts with our version of a security fixture, or be able to extinguish retail concerns regarding pilferage and the cigarette category.

Return Goods Salvage Program Recap

Section 11 Month/Year September, 1987
8/15, 8/22, 8/29, 9/5, 9/12, 9/19/87

	<u># Cartons Handled</u>	<u># Cartons Salvaged</u>
Sales Reps/Area Managers	<u>1,123</u>	<u>44</u>
Returned Goods Processors	<u>7,467</u>	<u>1,957</u>
TOTAL	<u>8,590</u>	<u>2,001</u>

Key Account Contacts

<u>Date</u>	<u>Account</u>	<u>Contact</u>
9/13	Zayre Corp.	J. Plante B. O'Neil
9/15	Stop & Shop	B. Mardo
	(Garber Bros.) (Trade Show)	H. Garber J. Poulakis
	Shell Oil	E. Gaynor
9/18	T.B.I.	B. Treisman N. Bayko
9/21	Christy's	E. Rotatori
9/22	A. H. Notini	J. Campbell

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MERCHANDISING PROGRAMS

Carton Merchandising

Zayre has responded favorably to our 3 x 5 x 3 x 5 island carton fixture, however, their final decision regarding the implementation of our fixtures remains pending.

Purity Supreme - during this period we placed P.M. fixtures in two additional Purity Supreme stores.

Pack Merchandising

Zayre - The Marlboro multiple checklane merchandisers are still under consideration. Zayre management has seen the displays and has found they meet their needs. While a decision has not been rendered, indications are that they will implement this program.

Stop & Shop - The customized 2 x 2 x 2 checklane merchandiser has been placed in the Stop & Shop superstore in Quincy, Ma., for review and modifications. As a result of this demonstration, we will gain an additional Plan R tray and modify the rack to hold more magazines.

Section Merchandising

	<u>12/86</u>	<u>8/87</u>	<u>Change</u>
Plan A Rows	87,772	93,621	+5849
Plan A Penetration	94.7	9.92	+4.5
Accts. w/Pack Rack	1,310	1,575	+265
Accts. w/Ctn. Racks	252	375	+123
Plan A	1,311	1,371	+60
Plan A-1	904	906	+2
Plan B	1,975	1,875	-100
Plan M	608	863	+255
Plan R	38	53	+15
BG	632	923	+291
BV	1,118	1,490	+372
AV/AG	438	461	+23
Prime Position	1,215	1,419	+204
A.O.M.	1,436	1,792	+356
Accts. w/Perm.P.O.S.	6258/79.6%	6375/80.5%	117/.+

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SECTION ACTIVITIES

Productivity Trends - August, 1987

Maxi Call Rate	10.7
Regular Call Rate	9.9
True Call Rate	6.9
Selling Time	83.1% (9.8% Hol./Vac.)

Cycling # S/R's

Cycled	4
90-95%	0
85-89%	3
80-84%	5
75-79%	5
-75%	40

Area Managers/SAM's

Key account manager activities centered on the retail introduction of Virginia Slims Ultra Lights and the management sell-in of B & H Lights Box.

Presentations for our new Plan A, AV and AM are in full swing as the Space Trek voyage begins.

Managers continue to try and close any distribution gaps on Cambridge Full Flavor and Lights. A recent noteworthy success was at Purity Supreme where the account accepted all packings of Cambridge on a DSD basis.

All SAM's/AM's were involved in the Virginia Slims Ultra Lights ADA Count/Recount this week on 9/21 & 9/22. Also this week all Key Account Managers are contacting their Direct Accounts to ensure participation in our Inventory Maintenance Program.

Presentations continue throughout the Section on our System 2000 Fixtures. Major accounts that our SAM's continue to pursue are:

Stop & Shop
Zayre Dept. Stores
Purity Supreme (partial implementation)

(Continued)

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SECTION ACTIVITIES (Continued)

Division Managers

Division Managers have been working with their sales people on a number of areas including:

- Cambridge Full Flavor Distribution
- Virginia Slims Ultra Lights Introduction
- Benson & Hedges Lights Box Pre-booking
- Plan A, AV & AM
- Space Trek
- 1988 Objectives Setting

The current 2 for 1 Programs are taking up a substantial amount of our our people's time. These are:

8/31 - 9/18	Phase 1 V.S.U.L.	2 for 1
9/21 - 10/9	Phase 2 V.S.U.L.	2 for 1
10/12- 10/30	Players Lights 25's	2 for 1
11/2 - 11/27	B & H Lights Box	2 for 1

When you take all these things and also include the upcoming V.S.U.L. Lighter displays couponing and Book of Days Promotion, our sales people certainly have their hands full for the remainder of 1987.

Special ProgramsVirginia Slims Ultra Lights Sampling Program

The V.S.U.L. sampling program is currently going on, and we presently have five samplers on board out of the allotted fourteen for the Section. Our D.M.'s continue to have an extremely difficult time recruiting for these positions. We have inquired into agencies in the states of Massachusetts and Maine to find out what the cost would be. In Mass., it would be \$10.00/hr and in Maine \$7.00/hr. While this is somewhat higher than what we are accustomed to paying, it is definitely the way to go due to the difficulties our managers consistently encounter in hiring part-timers.

Marlboro Special Summer Merchandising Program

The recently concluded Special Marlboro Summer Merchandising Program was a great success with a total of 189,405 cartons (37,881,000 units) sold over the three-month period. 708 retail stores participated in the program with 496 independents and 212 chains. The average sell-in was 90 cartons/store for each month of the program or 270 total. We strongly urge that this be an annual program in our summer resort areas. (Continued)

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SECTION ACTIVITIES (Continued)

P.O.S. Materials

We are receiving many requests for the Marlboro Shopping Baskets and processing them as they come into the office. The item is listed on the allocation screen but no allocation has been given to the Section to date. As items are ordered, the screen keeps accumulating what was released as a minus figure against any allocation. This is FYI.

Electronic Message Center

To date, we do not have any EMC's on location in Section 11. Economy Mobil was erroneously reported on the System 2000 Results Form as having one. Presentations have been made on behalf of the EMC's to the following:

- . Purity Supreme
- . Cricenti's Market
- . Riddle's Supermarkets

Purity Supreme - account liked the Message Center but felt that the Marlboro graphic was too overpowering. If the graphic is softened, they will be willing to view again and reconsider.

Cricenti's Market - at the last minute they decided that the unit was too large for their store. Will have DM propose again for a one-sided graphic against wall.

Riddle's Supermarkets - demonstration has been made. Account is considering proposal but has indicated that unit may be too large for their stores.

SALES SERVICES

No comments

SALES DEVELOPMENT

The new Philip Morris Merchandising News is an excellent vehicle to communicate to our sales organization the various programs and merchandising techniques that are taking place around the country. I think this is a great idea and look forward to future editions.

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MEDIA

The Boston Globe has just completed running a 4-part series (Sunday 9/20/87 through Wednesday 9/23/87) on smoking entitled, "Smoking's Deadly Trail". Copies of the entire series will be forwarded to Region and to Corporate Affairs.

The media activity (particularly billboards) on behalf of Virginia Slims Ultra Lights has been excellent and helpful in the retail introduction of the new packings.

ASSOCIATIONS/CONVENTIONS

During the past month, we have participated in the following trade activities:

9/9,10/87	S. Arons Trade Show	M. McGrail Y. Brock J. Mavilia
9/15,16/87	Garber Bros. Trade Show	D. Foudriat J. Keighley M. McGrail L. Edelman
9/19,20/87	N.H. Retail Grocers Assoc. Trade Show	S. Tardiff M. King B. Mauceri W. Casper

MISCELLANEOUS COMMENTS

The word is now out that we have the Sky-Box Luxury Suite at Sullivan Stadium, and the response has been excellent. Since our last report, the Box has been used for the Patriots/Dolphins Season Opener and the U-2 Concert.

Requests for usage of the Box are already exceeding available space for the remainder of the football season. We will not be affected by the cancellation of this Sunday's game as the Patriots were scheduled to play in Washington. Our next home game is Sunday, October 4th versus Cleveland.

The NYO will be utilizing the Box for this Saturday's (9/26) Boston College vs. Penn State game.

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I. MARKET CONDITIONS

New PM Brand

Virginia Slims Ultra Lights - With the breakthrough on both Brooks Drug (392 stores) and CVS (609 stores), the only major chain holdout is now Ames Department Stores (324 stores). Backed by strong media support and extensive B1G1F activity, our Sales Reps are anticipating retail distribution will run 90%+.

Retailers are reporting very high cannibalization on our Virginia Slims Lights packings.

B & H Lights Box - Our managers report that these packings have been a "tough sell" right on the heels of our Virginia Slims extension launch. Virtually all distributors and smaller chains have accepted the packings. Decisions among major accounts are still pending at: Brooks Drug (392 stores), CVS (609 stores), Ames (324 stores), A & P (84 stores), Finast (68 stores), Dairy Mart (105 corp. stores), Charter Marketing (66 stores), Honey Farms (50 stores), Aldin Assoc. (56 stores), and Caldors (108 stores). The above list is by no means a final picture of acceptance with major chains. SAM's anticipate that all but Ames will accept B & H Lights Box within the next two weeks.

Retail reports indicate that the B & H packing change is going smoothly, with inventories on the old packings dwindling nicely at retail.

Retail response to pre-booking the new B & H Lights Box packings was far less than expected. DMs anticipate a slower introductory sell-in at retail due to heightened new packing resistance.

Cambridge Full Flavor

Major chains still pending acceptance are: Brooks Drug (392 stores), CVS (609 stores), Ames Dept. Stores (324 stores), and P & C Markets (24 supermarkets).

At retail the picture is much brighter; ie., an increase of close to 150 BV units; distribution now on the increase again; coupon activity driving sales more successfully; major competition has lessened (Doral couponing reduced from \$1.00 to 50¢, and Magna increased to full price in Western Mass and Vermont test areas). This positive trend can only be maintained if we continue to have the merchandising support tools we need.

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I. MARKET CONDITIONS (cont)

PM/Industry Sales

August unit sales were -5.9% versus August '86, bringing our YTD '87 units to +2.8%.

Our Western Mass market (-8.9% YTD) continues to be down, as expected, due to the loss of TDC's Polep/Western Mass branch (365 million units YTD August '86 - zero YTD August '87). Much of their former business can be traced to Samuel Arons (Sect. 11) and McLane N.E. (Sect. 13).

Brooks Drug (down 163 million units) has had a serious impact on the Rhode Island market (-15.1% August '87 versus '86), due primarily to a new store maximum inventory policy, which has been poorly understood at retail. SAM Mark Lovley is working closely with Brooks to solve the problem.

Large unit increases by CVS (due to additional stores), Cumberland Farms (due to Aug '86 change in carton pricing), and S & S Tobacco Co. (Aug '86 pickup of Stop N' Shop units in CT and W. Mass) have thus far more than offset the previous Polep/Western Mass units, thus netting the Section's +2.8% YTD increase.

II. MAJOR COMPETITIVE DEVELOPMENTS

American - Introducing Malibu 100's (Regular, Menthol, and Lights) in all Section 12 markets. The brand will be "continuously supported" at retail with \$3.00 carton coupons (factory affixed) and a 30¢ pack VPR. Direct account introductory dates are 9/14 - 10/2, with standard 20's pricing and \$24.00 per case intro offer (complete intro package forwarded NYO 9/10/87). An interesting twist is their "Special Rebate Offer" of 25¢/M on all product purchased through the end of 1987. Product is being pre-booked at this time.

Usual coupon activity continues with Pall Mall and Lucky packings. No excitement over Lucky Lights package change from silver to white/red.

B & W - Capri distribution continues to grow. Movement is very spotty, though well supported by B1G1F product. Both media and in-store presence has been severely blunted by competitive activity. Awareness is generally poor, as are repeat purchases.

Other retail activity continues as previously reported.

L & M - New "Class A" generic being worked at retail with a 4-wide value rack (payment unknown at this time), B1G1F displays, and \$2.00 off carton couponing.

L & M Reps placing 30-carton floor bins in high volume outlets featuring \$2.00 off carton purchase coupons on virtually all other Liggett brands.

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II. MAJOR COMPETITIVE DEVELOPMENTS (cont)

Lorillard - All major brand lines are being supported with \$2.00 off carton coupons (with \$6.00 mail-in offer for follow up coupons).

Newport activity is heavy, including: 20¢/carton inventory drive at retail, 2-packs with 50¢ coupon, 2-packs with key chain, and 2-packs with plastic bracelet (on Slims Lights packings).

RJR - On September 10th, direct accounts in Western Mass and Vermont were notified of a change in Magna pricing from generic to full-margin (circular forwarded NYO 9/11).

The change has had severe negative impacts in all trade segments; both wholesalers and retailers are reported cutting distribution as a result.

Doral coupon levels have been dropped from \$1.00 to 50¢ in all Section 12 markets. So far, one result of this move has been to help Cambridge distribution and sales.

RJR Reps presently pre-booking Salem Light 100's "custom case" which was introduced to direct accounts from August 28th-September 25th (intro details forwarded NYO), for an October retail launch.

RJR "Entitlement Program", 9/14-9/30, (details already forwarded NYO) is receiving mixed response, though most accounts are convinced of the profit available through forward buying.

RJR Reps are targeting PM rack placements in most outlets. Retailers report several different "threats": lowered payment where both PM & RJR have racks, loss of coupons in stores with exclusive PM racks, and poorer promotional service for accounts thinking of changing to PM racks. No "formal" tactic has surfaced to date.

III. TRADE CLASSES

Wholesalers

Atlantic Tobacco - New direct account posted 5 million units in its first month of direct operations.

Auburn Distributors - AM Paul Nebosky and DM Tim Geppner conducted a portion of AMD's 9/25 sales meeting to review our B & H Lights program, PM fixturing alternatives, and Cambridge inventory levels.

J. Polep Distribution Services - AM Paul Nebosky and DM Bill Rogoff plan activity as above with Jeff Polep's sales meeting on 10/1/87. Jeff and I discussed what he believed to be "deteriorating relationships" with PM sales people. After ironing out some misunderstandings, we are now on the right track again, as evidenced by the above meeting plans. Jeff will also be recommended as a returned goods depot, in order to curtail excessive wheel-spinning by our Springfield division.

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III. TRADE CLASSES (cont)

Vendors

AMs are in the process of re-contacting most of their vendors regarding our ACMR conversion program.

Competition for vending columns has increased with a new player in the field. Vendors have been receiving mail from both Aegis International Healthcare Corp., and Hospital Specialty Co., regarding condom vendpacks. Several vendors are seriously interested in the potential of this "new market" created by the AIDS concern.

Supermarkets

A & P (87 stores - 32 self-serve with Plan A & AV) - Placements of AV racks have been virtually completed in all self-serve stores. Royale headers are on order to complement our P/V efforts. SAM Mark Lovley will coordinate through ADRS Alan Berlin for possible joint presentation of System 2000 with Section 15's SAM Mike Grande at A & P's Montvale, NJ Headquarters.

Finast (68 stores, 35 self-serve with Plan A and 19 with AV) - SAM Bill Finlan is still in the process of Plan A negotiations with VP Marty Lev - no decisions at this time.

Big Y (23 stores - non self-serve) - AM Paul Nebosky has gained a PM presence breakthrough with the authorization of Marlboro Shopping Baskets for all stores (2 sets each). VP John Sarno is also considering our BV displays, but continues firmly dedicated to non-self-service merchandising of cigarettes.

Convenience

Cumberland Farms (1193 stores - 1102 B-3) - SAM Bill Finlan was forced to re-group due to Carlstadt's out-of-stock on brackets (add-ons) for the recently authorized M-4 unit. With NYO approval, Bill converted successfully to our new M-5 unit, which has been authorized for all stores on October 1.

Bill and I also joined Ed McQuigg, Les Olson, and Daryl Lindbloom (NYO) in an evening get-together with Cumberland VP Marketing Bill Chase and Senior Buyer Steve Haringa to discuss several alternatives for driving PM and Cumberland Farms business in the future. Bill will be working closely with Daryl to quantify some of the "media-buy" proposals in the coming weeks.

Also at Cumberland, Pete Apicella and I made a follow up FVB proposal with Bill and Steve. The outcome is pending a B & W (Cumberland's current supplier) counter-offer.

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III. TRADE CLASSES (cont)Convenience (cont)

Dairy Mart (105 corporate stores with M-4 and BV) - SAM Bill Finlan regained the commitment of VP Larry Haile (Marketing) and VP John Wynne (Operations) to replace 35 BV's that were removed from the stores by former VP Marketing John Underwood (now with Lawson's Division).

Pete Apicella also presented FVB to Dairy Mart with Bill and myself. No response to date.

Honey Farms (50 stores - All with B-3 and BV) - Relations with this chain continue to improve, as they have now authorized Marlboro Shopping Baskets for all stores. Next step - overheads.

General Equities (Hill Oil; Food Bag (50 stores total) - PM's first appointment with CEO Ray Hill actually materialized. SAM Mark Lovley and I generally reviewed cigarette industry trends with Ray, and specifically discussed permanent counter displays. Though no manufacturer has counter displays in this chain, Ray seemed very positive on allowing a test in several selected stores to identify potential shrinkage. Final decisions regarding the test should be known shortly.

Jane Alden (15 stores) - Marlboro Shopping Baskets have now been placed in all stores.

Convenience Gas

Atlas Oil (15 stores) - Effective October 1, Atlas will participate in our counter display program. AM Jay Maloney will review each store and determine which display unit is best for each store prior to signing contracts. Atlas has also expressed an interest in our Mobil gray overheads (currently supplied by RJR).

Mass Merchandisers

Ames (324 stores/Plan A) and Caldors (108 stores) continue to be problem accounts, since their corporate structures were changed by acquisition. Solutions in both cases will be to get above old management to the new "movers and shakers" of their organizations. This has become a top priority for both SAM's Finlan and Lovley.

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III. TRADE CLASSES (cont)

Drug

Brook Drug (414 stores - no Plans) - As previously discussed, Brooks is suffering a huge business drop (-163 million units - YTD August). SAM Mark Lovley has gained authorizations for our Sales Reps to exchange stock in Brooks stores. Though this is a temporary "band-aid" approach, it will help PM's in-stock position until Brooks' new 150% maximum inventory policy can be reinterpreted to their retail management. They are presently cutting orders on major brands due to overstocks on slow items, in order to fall within their 150% limit.

CVS (609 stores) - SAM Mark Lovley gained acceptance of Virginia Slims Ultra Lights packings after a long uphill struggle.

Liquor/Grocery/Other

Nothing new to report.

RETURNED GOODS SALVAGE PROGRAM RECAP

Section 12 Month/Year August 1987

	<u># Cartons Handled</u>	<u># Cartons Salvaged</u>
Sales Reps/Area Managers	<u>0</u>	<u>0</u>
Returned Goods Processors	<u>3278</u>	<u>349</u>
Total	<u>3278</u>	<u>349</u>

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IV. SSM KEY ACCOUNT CONTACTS

Cumberland Farms - three times

Dairy Mart -

Calls made with SAMs
and/or FVB Region Mgr.
Apicella. See Trade
Classes for details.

CVS -

Brooks -

A & P -

General Equities (Hill Oil; Food Bag)

J. Polep Distribution Services

Additional contacts precluded by pilot redeployment project.

V. MERCHANDISING PROGRAMS

A. Carton Merchandising Programs

Retail efforts are being targeted toward key independent retail stores in which we have serious space problems. During September we gained a Plan A in four previously non-contracted high volume outlets (500-600 cpw). Since last month S/R's have gained 550 new PM rows. DMs report that this is just a start. Sales Reps are hoping that there will be a point at which time is available to really put their full efforts into "Space Trek". They are finding it very difficult during this double introductory effort.

Chain results are very slow, due to the magnitude of decisions involved in re-merchandising their stores (see Trade Classes for details on negotiations).

B. Pack/Counter Merchandising Programs

Penetration increased over July-end figures with all pack merchandising programs: B/M penetration from 34.2 to 34.4%, BV's increased by 127 units (11% increase), Plan R increased by 11%, and BG's increased by 6.2%.

Virginia Slims Ultra Lights B1G1F - Excellent response at retail and consumer level. These displays have become a "staple" of any introductory effort.

Cambridge Regional Pack VPR - The program has been very effective in gaining distribution in lower volume stores. The VPR stimulated trial, but is not enough of an offer to stimulate the kind of consumer "hoarding", such as that experienced with a 2 for 1 promotion on established brands. The program was timed perfectly to respond to Magna in both Western Mass and Vermont.

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V. MERCHANDISING PROGRAMS (cont)

C. Vending

Nothing new to report.

D. Pack Fixtures

The Section achieved a net gain of 15 new OHPMs, and 9 additional other types of pack racks during the month.

RJR's new overhead, originally thought to be a threat, is not making any headway.

All RMs are reporting backlogs on fixtures due to be placed.

VI. SECTION ACTIVITIES

Activities included: Virginia Slims Ultra Lights introduction, B & H Lights Box management sell-in and retail pre-booking, Space Trek, Cambridge 2 for 1 wrapping and couponing, trade shows, Virginia Slims Ultra Lights sampling program, September-end IMP program, and several activities regarding our Redeployment Test in Waterbury, CT.

Special Programs -

Waterbury Test Redeployment - On 9/3 our Waterbury, CT division was introduced to the dual sales force concept. On 9/8 the new territories were being worked according to the new job descriptions for "Full Margin", "Price/Value", and "Merchandising Representatives". On 9/16-9/17 and 9/22-9/23, all of the new jobs were timed (twice each) to get a better feel for the duration of each in-store mission. On 9/25 the division met again to discuss initial results with NYO redeployment "Task Force" members. Further details at eleven...

Electronic Message Centers - At present there are no EMCs on location in Section 12. We are presently determining potential accounts for EMC presentations, now that the EMC unit is not tied to System 2000 locations.

VII. SALES SERVICES

Nothing new to report.

VIII. SALES SUPPORT

Nothing new to report.

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IX. MEDIA

Excellent support for Virginia Slims Ultra Lights introduction.

X. MEETINGS/ASSOCIATIONS/CONVENTIONS

9/11-9/13 - Vermont Retail Grocers Association Trade Show in Burlington, VT. Attended by DM Carol Cook and SSS Dick Lodi. PM booth was popular.

9/13-9/14 - Capitol Candy (Hartford, CT) - Annual trade show held at Sturbridge, MA. Show was attended by AM Tom Tosun, AM Jay Malone, DM Dennis Clair, and SSS Ray Pelchat (2 each day, 2 days). This was the first year in which PM participated with a booth, and it was very successful.

9/17-9/20 - Connecticut Food Store Association held their annual convention in Newport, RI. SSS Ray Pelchat attended (No trade show this year - Trade contacts were established and reinforced).

9/21 - Bozzuto's Annual Charity Golf Classic. The event, held in Wallingford, CT, was attended by AM Allison Beaudette and SSS Ray Pelchat. As above, trade contacts were established and reinforced.

9/10 - MPA Dave Simoneau met with Carolyn Alexander (NYO-Training) to review proposed Sales Presentation Tools catalog revisions and discuss field needs.

Other meetings were held regarding our Waterbury Redeployment Test (see Section Activities - Special Programs for details).

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I. MARKETING CONDITIONS

Cambridge - At the direct level, the Section has Rite Aid, Mark Stevens, and Golub still pending relative to acceptance of Cambridge Full Flavor. Akel included Cambridge Lights Kings in its first purchase of the Full Flavor and made distribution of the three packings to its Giant Markets. Chains now pending are Rite Aid, C.V.S., Victory, P&C, Price Chopper, Price Chopper Gas and N.S.I. Cumberland. The 25¢ off promotion for Albany/Kingston continues to be worked since 5,400 coupons remain. Additionally, some banding of 2 for 1 product continues where the promotion had not been finalized due to time constraints.

Virginia Slims Ultra Lights 100's - The Section only has Akel, J. English, Mohawk and Stewart's pending at the direct level. Additionally, Wegman's has begun purchasing all V.S. packings at direct rather than from a secondary source since the introduction made them aware they would not have stamping problems. The A.D.A. was completed on 09/21. Acceptance has been excellent because this is a brand extension of an established brand and the promotional support being extended to the introduction is extensive.

B&H Lights Box - Due to the dual introduction and the option of introducing both the Slims Ultra and B&H Lights Box either jointly or separately, all our managers have not yet made all presentations. It is for that reason that it is premature to recap acceptance until next month.

Philip Morris - Section 13 year-to-date unit sales are up 6.6% and continue to be the best in Region I. The Albany Market is up 4.2%, Buffalo is 6.6% and Syracuse 11.7%. Additionally, the Syracuse Market had the second highest share growth in the nation of 3.0% over the first six months of the year. The only market with a decrease is Rochester at -2.3%, which is attributable to the fact that Button business is down because Fay's Drugs went direct. Definitely, all indications are positive that the trend will continue throughout the year and the new introductions should assist further. Parliament continues to be a prime opportunity for Regionalized Marketing and should be promoted in Section 13 if budget permits.

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Industry - Industry volume is down -1.3% through July and all competitors (R.J.R. - .49, B&W - 8.29, Lor. - 2.7, Am - 6.0 and Liggett - 9.5) show unit losses in the Section year-to-date. The N.Y.A.C.S. has formed their own political action committee which will join forces with the New York State Food Merchants Association. Although, N.Y.A.C.S. cites many various reasons, the only examples were the Cigarette Marketing Standards Act affect on convenience stores. The Amendments reported last month to the Cigarette Marketing Standards Act still has not been signed by the Governor and the key issue is the price advantage for chains of 15 stores or more.

II. COMPETITIVE ACTIVITY

American Tobacco - Direct sell-in for Malibu began on 09/14. There are three packings (Filter 100's, Menthol 100's and Lights 100's) and the introductory allowance is \$24 per case with 30 day terms. Three dollar coupons are attached at the factory on this full price brand. A BIGIF is slated for retail starting 10/05.

BIGIF's are being offered on Lucky Filters and Pall Mall Filter, plus each offer has a \$2.00 coupon towards a carton purchase.

Brown & Williamson - Capri continues to filter into Section 13 through N. Y. City metro jobbers into accounts like Caldor and Shoprite. Additionally, the brand is displayed at all Rite Aids. BIGIF's have been reported on Capri. BIGIF reported this month for Kool and Richland. Falcon is being promoted in set/sells with 10¢ off per package and in 30 ctn. floor bins with \$1.00 off per ctn. Couponing continues (\$2.00 off on Kool, Richland and Barclay).

Liggett & Myers - Reps. are placing displays of L&M and paying retailers to discount the package price (\$14.00 paid for 40 packages or 35¢ off retail). They are doing likewise with their generics at the rate of 15¢ off retail. Thirty carton floor bins offer \$1.00 on Total and their generics. SR's are still placing \$2.00 off coupons on all full price brands on carton stock. Additionally, a five pack offer of Eve had a free refillable butane lighter.

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Lorillard - Newport is being promoted in BIGIF displays, B2G free lighter and gravity feed displays. True's have \$2.00 off coupons and a mail in for \$6.00 more in coupons. Stripes is being tested in the Albany Market and jobbers still report their orders aren't being received. The brand has been promoted in BIGIF offers, B2 get free lighter and with sample towers by their S.R.'s.

R.J.R. - BIGIF's are being offered on both Winston Lights and Salem in 6 carton displays with a \$3.00 payment on each. Magna will now be sold at full price starting 09/10 in New York after being tested and doing exceptionally well as a branded generic in the Albany Market. Two dollar coupons reported on Winston, Salem, More and Camels. Doral is noticeably running out of coupons at retail and obviously the couponing has been halted.

III. TRADE CLASSES

Wholesale Distributors - E. Pittston D.B.A. Mutual has been sold and Big M owners have stated it will be their co-operative to buy cigarettes. Although J. J. Corrigan was placed on direct in a change of ownership at McIntosh, their legal transition has yet to occur. The Herkimer Group assisted with direct ship (90 ctns. to 42 Carl's) of A-1 bins and incentives. This was the largest to-date in Section 13 of direct shipment of an A-1. Herkimer Group Costello of Syracuse will move to a larger facility in October. The New York State Tobacco and Candy Convention was held this month and the association is waiting to see if the governor signs the Amendments to the Cigarette Marketing Act reported last month in Section I of Industry. The Act solidified jobber profitability in the state and the association is truly interested in the Amendments which is their compromise to the Food Merchants Association.

Wholesale Grocers - Trading Port (Bi-Lo) may lose 87 C.F.M.'s to Stewart's. Stewart's is interested in selling cigarettes to accounts other than just their own stores and this would be their first account.

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Supermarkets - P&C was pleased with the prototype of lockup security and a test of four stores will begin in October of the 2000 Series rack. Victory has a new buyer and initial indications are the chain will become promotable for displays. Pending is a signing of the new Plan A of Grand Union (137 stores) since rack configurations vary from the New Jersey Region. Inroads continue as placements of 2000 Series racks are made at both Bell and Big M franchises.

Convenience/Gas - Ed McQuigg spoke at the N.Y.A.C.S. Fall Conference in Syracuse on 09/16/87. The group has 200 members representing 900 stores. Key is the fact the association joined forces with the New York State Food Merchants and will have a political action committee. N.Y.A.C.S. wants to change the Cigarette Marketing Act since many of its chains do not have the 15 stores required for a price advantage in purchase from wholesalers. Wilson Farms has its first prototype of a new P.M. package fixture in test.

Drugs - Carl's participated in a direct ship 90 carton A-1 from Herkimer and although logistics had to be closely monitored, this is significant because this was the largest such undertaking in the Section to-date. Fay's is converting 49 stores to self-service carton merchandising and a new A has been signed at a 63.5 row average for a pure 1,654 row gain. Future conversions are planned, but a pilfer beeper type rack is being requested. Fay's has offered package display space in baskets at every register in their stores. The option will be scrutinized, since R.J.R. has already contracted. Kinney is still converting its 27 stores from C/I to R.J.R. flex in an attempt to standardize their fixturing.

Mass Merchandisers - S.R.'s are in the process of implementing the new reduced capacity Plan A at Ames and the new gondola Plan A contract at Nichols.

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RETURNED GOOD SALVAGE PROGRAM

<u>REPORTS FROM</u>	<u>CTNS. SALVAGED</u>	<u>CTNS. RETURNED</u>	<u>TOTAL</u>
AM'S ()	-	-	-
RGP'S (3)	1041	5425	6466
SR'S ()	-	-	-
TOTAL	1041	5425	6466
% RATE	16.10	83.90	100%

IV. KEY ACCOUNT CONTACTS

This month the Section held Golf outings for three market areas (Albany 09/02, Syracuse 09/09 and Rochester on 09/23). Additionally, I attended the N.Y.A.C.S. annual Fall Conference on 09/16 and the New York State Tobacco and Candy Convention from 09/17-20. The combination of the Section's first golf outings, participation of P.M. with Ed McQuigg at the N.Y.A.C.S. Conference and attendance at the State Tobacco and Candy Convention resulted in having a month with so many contacts that listing would be too lengthy to be suitable.

V. MERCHANDISING PROGRAMS

Plan A - Preliminary work began this month on Space Trek. The fifty per cent rule for Marlboro does not appear to be unrealistic, however, almost all racks will have to be relabelled to meet this criterion. Initially, training has begun stressing the 110% and ensuring clarification that we will not pay for rows on a R.J.R. generic AV type fixture. The major contractual gain was at Fay's where 1654 rows were gained as the chain has converted 49 stores back to self-service. Hopefully, contracted stores at Grand Union will be increased from 107 to 117 next month with a total row gain of 3,377. Consistent progress has been made with the 2000 Series rack (32 to-date reported), especially in Big M and Bell franchises. The four store test at P&C with lock-up security should begin in October once we receive delivery of the lock-up feature from Parker Associates.

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Plan A-1 - The Carl's Drug chain went with its first A-1 in recent years by participating in the Marlboro Sports Gear A-1 in September. The tote bags, A-1 display and 90 ctns. per store were force shipped by the Herkimer Group and then set-up by our representatives after delivery. This was the Section's largest direct shipment to-date, since in combination with 155 Stewart's (30 ctn.), 22 Mobil (30 ctn.) and 42 Carl's (90 ctn.), a total of 219 stores were direct shipped in total. The remaining displays were set up this month from our allocation of 706 and all reports indicate 100% usage will be attained.

Plan AV - A four foot in-line P.M. generic fixture developed by Tom Parker and Associates has been placed and is being tested by Fay's in its Liverpool store. The managers do not like free standing fixtures and this solves the problem of racks protruding. A prime opportunity exists to expand on AV units since R.J.R. has stopped couponing Doral and has changed Magna to a full price brand in the state.

Pack Merchandising

Plan B/M/BG/BV - The major current program is implementation and counter plan-o-gramming of 61 Sugar Creek stores which have been signed to both M4 and BV plans.

Cambridge 2 for 1 - The August promotion has overlapped in some areas because the buy back offer and banding took longer than anticipated. Additionally, 155 Stewart's extras were granted above allocation which has allowed for more independent participation than originally believed.

Special 25¢ Off Promotion - Approximately 5,400 of the special select market promotion remain of the 19,000 ordered for Kingston/Albany to offset the Magna introductory generic price offers. Reports indicate the promotion will be finalized in October.

V.S. Ultra Lights Two for One - Phase I - Reports indicate 100% utilization. Chain participation in the V.S. Supplemental Display Program is excellent. The Phase I allocation is only 50% of Phase II and unlike the previously reported BIFIF offer, the complimentary product is already banded. The displays are eye appealing and are selling very well.

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Benson & Hedges Lights Box Pre-booking - The pre-booking for this introductory has been affected by the multiplicity of programs being run concurrently. The major obstacle is the dual introduction. Retailers are most hesitant to take two additional packings, after just "taking on" two by participating in a Virginia Slims Ultra Lights promotion.

B&H Radio Display and \$2.00 Off Promotion - Each representative received 100 radios and 200 coupons. The promotion is being run where needed because of excess old packaging. Reports indicate only small quantities of the old packaging and in some areas there are reps. finding it difficult to find enough old product to set up their nine carton radio displays.

VI. SECTION ACTIVITIES

The Section zoned-in this month on assisting the Division Managers with prioritization. The Key issue has been addressed, which is endeavoring to prevent program overlapping. Concurrently, the Marlboro Sports Gear A-1, the B&H Radio and \$2.00 coupon offer, the Virginia Slims Introduction (with Two for one offer Phase I), the Cambridge 2 for 1 banding promotion, the Albany/Kingston select 25¢ off per packages Special Promotion, the Benson & Hedges Lights Box pre-booking, the couponing of Cambridge/Players and the implementation of Space Trek were being conducted in the Section and this necessitated more emphasis on prioritization. Divisions are endeavoring to finalize one promotion where possible prior to beginning another to prevent overlapping. Essential inroads have been made with Space Trek with the realization that this is a long-term goal. Progress has been made with MAP, since paperwork has been submitted on four candidates to date.

The Section held its first golf outing's and our six Area Managers and two S.A.M.'s have benefited from the Albany Market outing, Rochester Market Outing, and the Syracuse Market outing by improving rapport. Additional contacts were made at the New York Association of Convenience Stores Fall Seminar and P.M. position as the industry leader was enhanced by the presentation given by Ed McQuigg. Philip Morris was well represented by upper management at the New York State Tobacco and Candy Convention this month and co-operation from association members should continue to improve as a result.

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VII. SALES SERVICES

Systems - Both SAM's have been exposed to accessing MIDAS via the Command Center. Follow-up training will be provided both SAM's and SSS's on utilizing Customer Trak. We continue to experience problems utilizing Freelance as well as the POG system due to a "hang-up" between the PC and Plotter. In addition, we are experiencing processing delays of up to 2 hours while running DPP and Customer Trak.

Fleet - All drivers of 1987 vehicles, which are affected by potential inferior defects have been advised and all pertinent information will be communicated from the SR to Section by 09/28/87.

Materials Distribution - The last consolidated warehouse will be operational by 10/15/87. This is located in Batavia and it will service the 13-04, 13-05 and 13-07 divisions.

Office Administration - Preliminary steps have been taken to increase our office space. The proposal has been reviewed in-depth by D.R.S. Henry Mize and approval granted by William Dorr to expand.

VIII. SALES DEVELOPMENT

The new "Space Trek" program has been initiated in the Section and personnel like the fact that objectives are based on each stores volume, rather than being given a total Section row goal. The 50 percent Marlboro row requirement has been analyzed and does appear to be attainable through resets. Our personnel were extremely pleased to receive their "Book of Awards", however, they continue to request the rule book on how to earn the points. Positive comments continue to be expressed relative to presentation made by Bill Iler at our last Section Meeting when he explained the program in detail. A representative from corporate reinforces the program's importance and the fact that Bill Iler was a native son of Section 13 resulted in more immediate credibility to the fact that the goals are realistic.

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IX. MEDIA

The media schedule for the Benson & Hedges Lights Box introductory does not include upstate New York and obviously was done for budgetary reasons. However, the billboard support would have been helpful since the packing has been previously tested in Section 13.

X. ASSOCIATIONS & CONVENTIONS

- 08/28/87 - Section B&H Lights Box and Space Trek Meeting at the Holiday Inn of Syracuse.
- 09/02/87 - Albany Golf Outing at the Syracuse Country Club.
- 09/09/87 - Syracuse Golf Outing at Drumlins Country Club.
- 09/16/87 - New York Association of Convenience Stores Annual Fall Seminar in Syracuse - Key note speaker Ed McQuigg.
- 09/17-20/87 - New York State Tobacco and Candy Association Annual Convention at the Concord Hotel in Kiameshia.
- 09/23/87 - Rochester Golf Outing at Shadow Lake Country Club.

XI. MISCELLANEOUS COMMENTS

Serious consideration should be given to hiring representatives prior to implementing an expansion of the sales force. If for example, a decision is made that there should be one Retail Merchandiser per division Section 13 would need four more. The R.M.'s would come from the sales force creating four vacancies. The expansion would be much smoother if recruiting, hiring and training were done or begun six months prior to implementation. I realize budgetary constraints are the rule, however, this method was used most beneficially during a previous expansion. Additionally, the time for a representative to become totally functional is much longer now that responsibilities and accountabilities of the job have been expanded.

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Definitive consideration should be given to promoting Parliament further in Region I. Section 13 had the Rochester "Heavy Up" program and considered it successful locally. The brand offers a prime opportunity to gain volume and share, however, three Section markets have had a void this year of promotional activity like the "Heavy Up" concept. December would be an excellent opportunity to give the brand some necessary support.

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